MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BAC 4644 – ADVANCED TAXATION

(All sections / Groups)

19 OCTOBER 2018
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 7 pages excluding the cover page with 5 (five) Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1 (20 MARKS)

a) Amanah Trust, a trust body and its beneficiaries, Anna and Inna are Malaysian residents. The financial information of the trust body for the year ended 31 December 2017 is as follows:

	Note	RM	RM
Gross business income		500,000	
Less: Expenses	1	320,000	180,000
Gross rental income		240,000	
Less: Expenses	2	100,000	140,000

Note:

1. Business expenses include depreciation of RM36,000 and cash approved donation of RM12,0000.
2. Rental expenses include capital expenditure of RM 21,000.
3. Unabsorbed business loss for the year ended 2016 is RM 20,000.
4. The annuity payable for year 2017 is RM 30,500.

Required:

(i) Compute the distributable income of Amanah Trust for the year of assessment 2017. **(5 marks)**

(ii) Calculate the tax liability of Amanah Trust for the year of assessment 2017. **(5 marks)**

(iii) Assume that Amanah Trust is a discretionary trust. In the year of assessment, Anna and Inna received Malaysian derived income of RM70,000 and RM40,000 from the trust. Compute the statutory income of Anna and Inna for the year of assessment 2017.

(3 marks)

Continued...

b) NZ Shipping Limited (NZS) is a New Zealand incorporated shipping company. It carries on the business of cargo by sea to various countries. During the year 2017, the company was registered under the Malaysian Merchant Shipping Ordinance of 1952 to run their operation in Malaysia. Before 2017, any merchant who wish to ship their goods using the NZS's ships would appoint an agent in Port Kelang to ship their goods to Singapore in feeder vessels, which will take the goods to Singapore. The payments for the services are made to the agents in Port Kelang.

Required:

Discuss the taxability of NZ Shipping Limited to Malaysian income tax under the Income Tax Act 1967 (as amended) in respect of the payments received for the cargoes shipped from Port Kelang before 2017 and after 2017.

(7 marks)

[Total: 20 marks]

QUESTION 2 (20 MARKS)

a) Blue & White Holdings Berhad (BWHB) is a listed investment holding company (LIHC) on Bursa Malaysia. It closes its accounts every 31 December. The income statement of the company for the year ended 31 December 2017 shows the following:

	Note	RM	RM
Rental income			450,000
Royalty			80,000
Interest			30,000
Gain from realization of investment			130,000
			690,000
Less: Expenses			
Interest charges (on property loan)		29,000	
Directors fees		98,000	
Salaries, wages and allowances		125,000	
Management fees		27,000	
Professional fees	1	33,000	
Miscellaneous cost		46,000	
Donation	2	3,500	
Depreciation		32,000	393,500
Net profit			**296,500**

Continued...

Notes:

1. Professional fees include audit fees and accounting fees amounting to RM15,000 and RM18,000 respectively.
2. Donations of RM 3,500 is a cash contribution to an approved orphanage house.

Required

Compute the chargeable income of BWHB for the year of assessment 2017.

(12 marks)

b) The following transactions with regard to Mr. Aswad for the year of assessment 2017:

(i) Aswad runs a laundry and a cyber café in Cyberjaya with annual turnover of RM250,000 and RM80,000 respectively.

(ii) Aswad has rented out five residential houses. The total rent receivable is RM500,000 per annum.

(iii) Aswad runs a car workshop with total annual turnover of RM520,000 (in which RM350,000 is service charges and RM170,000 is sale of spare parts)

Required:

Discuss the liability to register for GST (whether voluntary or mandatory) for each of the transaction described above.

(8 marks)

[Total: 20 marks]

Continued...

QUESTION 3 (20 MARKS)

Worth Unit Trust was formed in 2014 primarily engaged in the business of investments and shares. The company is not approved by the Securities Commission as a Real Estate Investment Trust nor is it a Property Trust Fund. For the year ended 31 December 2017, it has not distributed its total income to the unit holders. Its profit and loss account for the year ended 31.12.2017 shows the following:

	RM	RM
Income		
Gross rent	120,500	
Gross interest	240,800	
Malaysian dividends (single tier)	265,000	
Gain from realization of investments	96,000	722,300
Less: Expenses		
Assessment and quit rent	5,600	
Repairs and maintenance	3,000	
Security charge	2,300	
Insurance	3,600	
Property management fee	6,900	
Share registration expenses	15,000	
Secretarial, audit and accounting fee	18,000	
Telephone, printing and stationery expenses	3,500	
Office rent and incidental expenses	20,000	
Trustee's remunerations	8,000	85,900
Net profit		636,400

The company acquired a building which is rented out. During the year of assessment 2017, the company installed a lift in the building. The cost of the lift and the installation cost was RM480,000 and the expenditure incurred on alteration of the building to install the lift was RM70,000.

Required:

(i) Compute the income tax payable for Worth Unit Trust for the year of assessment 2017.

(16 marks)

(ii) Explain the deductions under section 63B that are allowed to a unit trust in respect of permitted expenses.

(4 marks)

[Total: 20 marks]

Continued...

QUESTION 4 (20 MARKS)

a) Malaysian Healthy Life Association was set up in January 2017. The income and expenditure account of the association for the year ended 31 December 2017 is as follows:

	RM	RM
Income		
Member's subscription fees		225,000
Entrance fee		20,600
Seminar fees		56,800
Professional fees from association activity		10,400
Interest income from bank fixed deposit		5,700
		318,500
Less: Expenditure		
Utilities and stationary	15,300	
Office maintenance	6,200	
Travelling expenses (official duties)	4,500	
Salary and wages	96,000	
Legal and professional expenses	4,100	
Speaker fees	15,000	
Rental of seminar hall	15,800	
Depreciation	5,500	162,400
Surplus over income		156,100

Additional information:

Malaysian Healthy Life Association is eligible to claim capital allowance of RM17,500 for the year of assessment 2017.

Required:

Compute the chargeable income of Malaysian Healthy Life Association for the year of assessment 2017.

(15 marks)

Continued...

b) TLK Cooperative (TLKC) was registered as co-operative society on 1 January 2015. The society carries on agriculture activities by the society's members. The society close its account to 31 December every year. For the year of assessment 2017, TLKC received income from interest (RM200,000) and dividend (RM35,000). The TLKC's member's funds at the beginning of the basis period are as follows:

	RM
Paid up capital	350,000
Share premium account	100,000
Statutory reserve	80,000
Appropriation account	65,000

Required:

Discuss the status of TLKC's income and member's fund for the year ended 31 December 2017.

(5 marks)

[Total: 20 marks]

QUESTION 5 (20 MARKS)

a) Explain what do you understand by 'Tax Planning'.

(5 marks)

b) Explain the importance of determining the date of commencement for business in the context of a tax planning.

(5 marks)

c) In tax planning, it is important to distinguish between a business income and an investment income. Discuss incentives or benefits for business income as compared to investment income as provided by the Act.

(10 marks)

[Total: 20 marks]

End of question.

APPENDIX 1

TAX RATES AND ALLOWANCES

i) Tax rates of company

Residents company

Paid-up ordinary share capital

	First RM500,000	Excess over RM500,000
RM2,500,000 or less	18%	24%
More than RM2,500,000	24%	24%

Non-residents company

Company	24%
Individual	28%
Labuan entity - income from a Labuan trading activity (all chargeable income)	3%
Trust body - resident or non resident (all chargeable income)	24%

ii) Capital allowances

Type of assets	Initial Allowance (%)	Annual Allowance (%)
Office equipment, furniture and fittings	20	10
Plant and machinery – general	20	14
Plant and machinery (heavy) and motor vehicle	20	20
Industrial building	10	3

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